



The One Hundred and Thirty-Second  
Annual Report of the Board of Directors of  
The Canada Life Assurance Company

March 1st, 1979

Head Office, Toronto, Canada.

AR53



## BOARD OF DIRECTORS

E. H. CRAWFORD  
*President*

A. H. LEMMON  
*Chairman of the Board*

J. G. HUNGERFORD, O.C.  
*Chairman of the Executive Committee of the Board*

BEVERLEY MATTHEWS, C.B.E., O.C.  
*Vice-President of the Board*  
Partner  
McCarthy & McCarthy

DAVID W. BARR  
*Vice-President of the Board*  
Chairman of the Board  
Moore Corporation Limited

ARTHUR J. E. CHILD  
President and Chief Executive Officer  
Burns Foods Limited  
Calgary

E. JACQUES COURTOIS, O.C.  
Courtois, Clarkson  
Parsons & Tétrault  
Montreal

NATHANAEL V. DAVIS  
Chairman of the Board  
and Chief Executive Officer  
Alcan Aluminium Limited  
Montreal

GRAHAM R. DAWSON  
Chairman and President  
Dawson Construction Limited  
Vancouver

GÉRARD FILION, O.C.  
Montreal

L. EDWARD GRUBB  
Former Chairman and Chief Officer  
of Inco Limited

RUSSELL E. HARRISON  
Chairman and  
Chief Executive Officer  
Canadian Imperial Bank of Commerce

J. D. LEITCH  
President  
Upper Lakes Shipping Limited

JOHN L. MCCARTHY  
Toronto

The Right Honourable  
LORD McFADZEAN, K.T.  
Honorary President  
British Insulated Callender's Cables Limited  
London, England

ELLMORE C. PATTERSON  
Former Chairman  
J. P. Morgan & Co. Incorporated  
New York

MRS. A. F. W. PLUMPTRE  
Ottawa

C. E. RITCHIE  
Chairman of the Board  
President and Chief Executive Officer  
The Bank of Nova Scotia

## MANAGEMENT OFFICERS

N. A. DALY, C.L.U.  
*Vice-President and Director  
of Canadian Agencies*

D. D. DENNIS, O.B.E.  
*Senior Vice-President and General Manager  
United Kingdom and Ireland*

D. I. FRASER, F.L.M.I.  
*Vice-President Administration and Secretary*

J. C. MAYNARD, F.S.A., F.C.I.A.  
*Senior Vice-President and Chief Actuary*

D. A. NIELD, F.S.A., F.C.I.A.  
*Vice-President and  
Director of Canadian Group*

R. D. RADFORD, F.L.M.I.  
*Vice-President and Treasurer*

H. L. SCHULTZ, C.L.U.  
*Vice-President and Associate Director  
United States Division*

J. B. WALKER, F.S.A., F.C.I.A.  
*Executive Vice-President  
and  
Director United States Division*

W. B. WAUGH, F.S.A., F.C.I.A.  
*Vice-President and Controller*

## HONORARY DIRECTORS

A. C. ASHFORTH

J. GORDON BEATTY, M.C.

E. C. GILL

J. ROY GORDON

S. M. WEDD





# THE REPORT

Your Directors have pleasure in submitting the 132nd annual report including the financial statements for the year ended December 31, 1978. The accompanying financial statements and exhibits consolidate the operating results and financial position of the Company's wholly owned subsidiaries.

New business placed by our marketing organizations during the year totalled \$3,072,512,000 consisting of \$2,562,662,000 of life insurance and \$509,850,000 of annuities.

Business in force totals \$30,018,988,000 excluding reinsurance ceded to other companies. This amount includes \$24,605,647,000 of life insurance and \$5,413,341,000 of annuities.

Total revenue for the year was \$675,051,000 including \$148,242,000 in amounts received and income earned for segregated annuity funds.

Payments to policyholders and beneficiaries totalled \$288,177,000.

The assets total \$2,668,997,000.

Liabilities arising from insurance and annuity contracts amount to \$2,344,628,000 including \$49,145,000 policy dividends for policyholders in future years.

Surplus and contingency reserves held as additional protection for policyholders and beneficiaries total \$275,152,000.

Mr. Ernest C. Gill retired as a Director at the last Annual Meeting. He was appointed an Honorary Director in recognition of his distinguished service as a Director since 1946, as President from 1951 to 1964 and as Vice-Chairman of the Board from 1964 to 1974.

The Directors express their appreciation to all members of the Canada Life for their contribution to the continuing progress of the Company.

On behalf of the Board,

A. H. Lemmon  
Chairman of the Board

E. H. Crawford  
President

Toronto, March 1, 1979.

# CONSOLIDATED STATEMENT OF INCOME AND UNASSIGNED SURPLUS

(in thousands of dollars)

	1978 (note 1)
<b>Revenues:</b>	
Premiums for insurances and guaranteed annuities . . . . .	\$353,156
Amounts received for segregated annuity funds . . . . .	92,624
Net investment income . . . . .	201,213
Gain on currency translation and transactions . . . . .	6,101
Gain on sale of real estate . . . . .	1,041
Increase in market value of assets held for variable insurances and segregated annuity funds . . . . .	20,916
	<u>675,051</u>
<b>Expenses:</b>	
Payments to policyholders and beneficiaries —	
Death benefits . . . . .	76,172
Disability benefits . . . . .	39,961
Matured endowments . . . . .	11,110
Annuities . . . . .	42,415
Cash surrender options . . . . .	48,600
Policy dividends allotted . . . . .	38,675
Payments under segregated annuity funds . . . . .	31,244
	<u>288,177</u>
Interest on amounts left on deposit . . . . .	5,010
Increase in actuarial reserves . . . . .	151,490
Expenses of administration, sales and service . . . . .	81,973
Income, premium and sundry taxes . . . . .	11,497
Net increase in segregated annuity funds . . . . .	116,054
	<u>654,201</u>
<b>Net income for the year . . . . .</b>	<b>20,850</b>
<b>Unassigned surplus, beginning of year . . . . .</b>	<b>83,742</b>
	<u>104,592</u>
Less:	
Increase in asset valuation reserve . . . . .	7,587
Increase in general contingency reserve . . . . .	5,354
<b>Unassigned surplus, end of year . . . . .</b>	<b>\$ 91,651</b>

(See accompanying notes)

# CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 1978

(in thousands of dollars)

	<u>1978</u>	<u>1977</u> <u>restated</u> (note 1)		<u>1978</u>	<u>1977</u> <u>restated</u> (note 1)
<b>Assets:</b>			<b>Liabilities:</b>		
Bonds . . . . .	\$ 816,672	\$ 695,881	Actuarial reserves (note 4) . . . . .	\$1,668,806	\$1,481,725
Mortgage loans . . . . .	695,072	655,781	Benefits in course of payment and provision for unreported claims . . . . .	61,098	50,977
Stocks (common and preferred) . . . . .	212,313	190,533	Policyholders' amounts left on deposit at interest . . . . .	53,507	49,943
Real estate . . . . .	137,532	109,679	Provision for future policy dividends . . . . .	49,145	38,811
Loans on policies . . . . .	193,717	183,974	Funds held for segregated annuities . . . . .	512,072	396,018
Cash and interest bearing deposits . . . . .	28,293	26,324	Policy benefit liabilities . . . . .	2,344,628	2,017,474
Premiums in course of collection . . . . .	20,587	16,860	Miscellaneous liabilities (including unallocated amounts and provision for outstanding taxes and expenses) . . . . .	49,217	47,174
Interest and rents due and accrued . . . . .	34,061	28,818	Total liabilities . . . . .	2,393,845	2,064,648
Other assets . . . . .	18,678	15,082			
Net assets of segregated annuity funds (note 3(b)) . . . . .	512,072	396,018	<b>Surplus and contingency reserves held as additional protection for policyholders and beneficiaries:</b>		
			Asset valuation reserve . . . . .	47,501	39,914
			General contingency reserve . . . . .	136,000	130,646
			Unassigned surplus . . . . .	91,651	83,742
			Total surplus and contingency reserves . . . . .	275,152	254,302
	<u>\$2,668,997</u>	<u>\$2,318,950</u>		<u>\$2,668,997</u>	<u>\$2,318,950</u>

(See accompanying notes)



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

## 1. Change in accounting policies

The Company has changed certain of its accounting policies as a result of amendments to the Canadian and British Insurance Companies Act which became effective as of January 1, 1978. The changes have been retroactively applied as if they had been in effect on December 31, 1977, except for certain new accounting policies with respect to reporting of gains or losses on sale of investments which have been adopted as of January 1, 1978. A restated balance sheet is included; comparative figures are not included in the income statement because it was not practicable to restate 1977 operating results.

Note 2 summarizes the present accounting policies of the Company. The major differences resulting from the amended legislation are as follows:

- (a) Actuarial reserve bases and methods have been revised as required by the Act. Provisions for severe adverse fluctuations in experience factors and economic conditions previously included as part of actuarial reserves are now included as part of the general contingency reserve and continue to provide additional protection for policyholders.
- (b) The method of determining actuarial reserves for Ordinary insurances has been changed from net level premium to modified net premium. The change recognizes that expenses are not incurred uniformly through the life of the policy by redistributing the expense portions of premiums more in accordance with the actual incidence which is heavier in the early years of the policy and lighter thereafter. This results in lower portions of premiums to build reserves and lower reserves throughout the duration of the policy.
- (c) Realized gains and losses on sale of bonds, mortgages and stocks (and unrealized gains and losses in the case of stocks) are being deferred and amortized rather than being recognized in the year of sale as was the previous practice.
- (d) The carrying value of the Company's investment in bonds has increased because the investment valuation reserve is now reflected as part of an asset valuation reserve appropriated from surplus.
- (e) Furniture and fixtures are now being accounted for as assets in the balance sheet and are depreciated rather than being charged against income at date of acquisition. A reserve for these items has been appropriated from surplus as part of an asset valuation reserve.

The impact of the above-noted changes on surplus and contingency reserves as previously reported at December 31, 1977 is summarized below:

	(000's)
Surplus and contingency reserve at December 31, 1977, as previously reported . . . . .	\$121,742
Addition resulting from change in basis of calculating actuarial reserves (net of \$9,056,000 transferred to miscellaneous liabilities) . . . . .	92,646
Increase in asset values reflected as an asset valuation reserve . . . . .	39,914
Total surplus and contingency reserves at December 31, 1977, as restated . . . . .	<u>\$254,302</u>

## 2. Significant accounting policies

- (a) The accounting principles followed for these statements are those prescribed or permitted by the Department of Insurance, Canada, as the Company is subject to regulation under the Canadian and British Insurance Companies Act.
- (b) These financial statements consolidate the operating results and financial position of the Company's wholly-owned subsidiaries. If the consolidation had been done using valuations required by the statutory authorities for the subsidiaries, surplus funds would have been reduced by approximately \$2,600,000.
- (c) Assets held for the life insurance business are valued as follows:
  - (i) Bonds are carried at amortized cost and mortgage loans at amortized cost less principal repayments, each plus or minus the unamortized balance of losses or gains on sales. The difference between the proceeds on the sale of a bond or mortgage and its book value is considered to be an adjustment of future portfolio yield deferred on the balance sheet and amortized over the lesser of the period to maturity of the security sold or 20 years.
  - (ii) Investments in stocks are carried at cost plus or minus losses or gains on sale of stocks, and are adjusted toward market value. The market value adjustment each year is 7% of the difference between adjusted book value and year-end market value for the portfolio.
  - (iii) Real estate investments are carried at cost less accumulated depreciation calculated on the sinking fund basis.



- (iv) Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.
- (d) Assets held for the health insurance business are carried at amortized cost for bonds and amortized cost less principal repayments for mortgages.
- (e) Assets held for variable insurance contracts and segregated annuity funds are included at market value.
- (f) Actuarial reserves represent the amount required, in addition to future premiums and interest, to provide for future payments under insurances and guaranteed annuities. The reserves are determined on a modified net premium method using appropriate assumptions and make provision for guaranteed cash values.
- (g) The asset valuation reserve required by statute consists of an investment valuation reserve against a market value deficiency of bonds, mortgages, stocks and real estate held for the life and health insurance business, a currency fluctuation reserve and a reserve for furniture and equipment.
- (h) The Company, as a multinational life insurer, is subject to complex income tax laws in several countries. Income taxes are provided based on an estimate of the amount currently payable which may not bear a normal relationship to pre-tax income because of timing and other differences in the calculation of taxable income.
- (i) These statements include United States currency at \$1.00 Canadian to the United States dollar and British and Irish currencies at \$2.00 Canadian to the pound for 1978 (\$1.70 for 1977).

### 3. Analysis of investments at December 31, 1978

	<u>Bonds</u>	<u>Stocks</u>	<u>Mortgages</u>	<u>Real Estate</u>
			(000's)	
(a) Assets held for the life fund (note 2(c)) . . . . .	\$796,201	\$167,566	\$666,649	\$137,532
Adjustment for deferral and amortization of gains and losses . . . . .	<u>1,050</u>	<u>1,373</u>		
Carrying value of life fund assets . . . . .	797,251	168,939	666,649	137,532
Assets held for the health insurance business (note 2(d)) . . . . .	16,784		28,423	
Assets held for variable insurance contracts carried at market . . . . .	<u>2,637</u>	<u>43,374</u>		
Carrying value of investments . . . . .	<u>\$816,672</u>	<u>\$212,313</u>	<u>\$695,072</u>	<u>\$137,532</u>
Market value of investments . . . . .	<u>\$744,218</u>	<u>\$262,370</u>	<u>\$638,208</u>	<u>\$206,309</u>
Amortization of gains and (losses) included in net investment income . . . . .	<u>\$ (99)</u>	<u>\$ 3,518</u>	<u>Nil</u>	

(b) Net assets held for segregated annuity funds are carried at market value and are analyzed in the following schedule:

	<u>1978</u>	<u>1977</u>
	(000's)	
Bonds . . . . .	\$227,128	\$175,420
Mortgage loans . . . . .	109,365	85,055
Stocks . . . . .	167,181	130,738
Cash and interest bearing deposits . . . . .	3,086	1,382
Interest due and accrued . . . . .	7,141	5,735
Amounts owed investment dealers and others . . . . .	<u>(1,829)</u>	<u>(2,312)</u>
	<u>\$512,072</u>	<u>\$396,018</u>

#### 4. Actuarial reserves

	1978 (000's)
Changes during the year were as follows:	
Balance, beginning of the year (December 31, 1977 restated)	\$1,481,725
Set aside on new and existing business	150,564
Change due to fluctuation in the market value of assets held for variable insurances	926
	<u>151,490</u>
Effect of changes in currency translation rates at January 1, 1978	35,591
Balance, end of the year	<u>\$1,668,806</u>

#### 5. Asset valuation reserve

The asset valuation reserve consists of:

(a) A minimum investment valuation reserve required by statute for the life insurance business of \$23,232,000 increased, if necessary, depending upon the size of the market deficiencies resulting by class of asset when both life and health insurance business investments are valued at market value. Based on 1978 year-end market values the required investment valuation reserve is \$25,343,000.

(b) A currency fluctuation reserve required by statute. If current rates of exchange had been used for all currencies in the 1978 balance sheet, surplus would have increased by \$17,016,000. As a result the required valuation reserve for 1978 is reduced to \$8,327,000.

(c) A statutory reserve of \$2,915,000 against the net book value of furniture and equipment.

The additional reserve provides protection against future market and currency fluctuations.

#### 6. United States assets

At December 31, 1978, assets included in the accompanying consolidated balance sheet held in trust in the United States by The Canada Life Assurance Company (exclusive of its subsidiaries) for the protection of its United States policyholders totalled more than \$251,000,000 which exceeded net liabilities to its United States policyholders at that date.

#### VALUATION ACTUARY'S REPORT

To the Policyholders and Directors of  
The Canada Life Assurance Company:

I certify that the valuation of policy benefit liabilities of The Canada Life Assurance Company and its subsidiaries for the consolidated balance sheet at December 31, 1978 and the consolidated statement of income and unassigned surplus for the year then ended has been done under my direction. The valuation included verification of data, and the choice of assumptions and methods appropriate to the circumstances of the Companies and the policies in force.

The value of policy benefit liabilities is not less than is required by the Canadian and British Insurance Companies Act and in my opinion, these liabilities make good and sufficient provision for future payments under the terms of the policies in force.

Toronto, Canada  
February 12, 1979.

J. C. Maynard, F.S.A., F.C.I.A.  
Senior Vice-President and Chief Actuary

#### AUDITORS' REPORT

To the Policyholders and Directors of  
The Canada Life Assurance Company:

We have examined the consolidated balance sheet of The Canada Life Assurance Company as at December 31, 1978 and the consolidated statement of income and unassigned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Company's Senior Vice-President and Chief Actuary as to the amount of the Company's actuarial reserves.

In our opinion, based on our examination and the opinion of the Senior Vice-President and Chief Actuary, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations for the year then ended in accordance with accounting principles described in notes 1 and 2.

Toronto, Canada  
February 12, 1979.

Clarkson, Gordon & Co.  
Chartered Accountants





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## NEW BUSINESS

First Year  
Premiums  
(in thousands)

1978 1977

### Individual

Insurances . . . . .	\$ 20,083	\$ 15,371
Annuities — Annual Premiums . . . . .	2,379	2,757
— Single Premiums . . . . .	54,063	48,537
Health Insurance . . . . .	1,183	1,087
Variable Insurances and Annuities . . . . .	10,117	8,273
Total Individual . . . . .	<u>\$ 87,825</u>	<u>\$ 76,025</u>

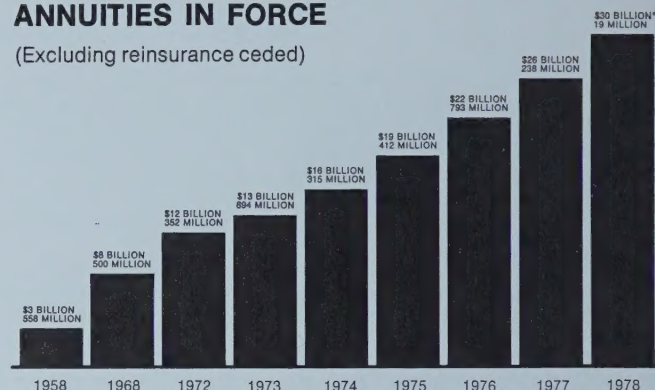
### Group

Insurances . . . . .	\$ 4,225	\$ 7,094
Annuities . . . . .	7,806	8,594
Health Insurance . . . . .	6,701	6,576
Segregated Annuities . . . . .	33,880	32,384
Total Group . . . . .	<u>52,612</u>	<u>54,648</u>
Total Individual and Group . . . . .	<u>\$140,437</u>	<u>\$130,673</u>

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## LIFE INSURANCE AND ANNUITIES IN FORCE

(Excluding reinsurance ceded)



\*Life Insurance — \$ 24 billion, 606 million

Annuities — \$ 5 billion, 413 million

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## PAYMENTS UNDER POLICY CONTRACTS

in millions

1978 1977

Death and Disability Benefits . . . . .	\$116.1	\$100.3
Endowments . . . . .	11.1	10.1
Annuities . . . . .	42.4	36.2
Cash Surrender Options . . . . .	48.6	44.1
Policy Dividends . . . . .	38.7	29.9
Segregated Annuity Funds . . . . .	31.3	14.0
Total . . . . .	<u>\$288.2</u>	<u>\$234.6</u>

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## NET RATE OF INTEREST EARNED 1954 - 1978

